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E FOR THOMAS PIERCE,
PASS NSC FOR JOSE CARDENAS
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
EX-IM BANK FOR MICHELE WILKINS
OPIC FOR GEORGE SCHULTZ AND RUTH ANN NICASTRI
PASS USTR FOR SUE CRONIN AND MARY SULLIVAN
TREASURY FOR ALICE FAIBISHENKO
USDOC FOR ALEXANDER PEACHER AND JOHN ANDERSEN
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SUBJECT: ARGENTINA'S RIO MERCOSUR SUMMIT PRIORITIES

Classified By: AMBASSADOR EARL ANTHONY WAYNE. REASONS 1.5 (B,D)

Summary

1. (C) President Chavez's inaugural comments and nationalization of key industries have cast a shadow on Argentina's participation in the upcoming January 18-19 Mercosur Summit in Rio. Key GoA officials have commented that "Venezuela is not the model" for Argentina or for Mercosur. Venezuela's play may even have prompted President Kirchner to reconsider attending the regional Summit. In any case, the GoA delegation will include Ministers of Economy, Planning and Foreign Affairs and top Argentine priorities at this meeting include addressing investment asymmetries among Mercosur members.

2. (C) Argentina will seek formation of an EU-like body to vet investment tax incentive disputes, including the GoA's long-standing complaint on Brazilian state-level tax exemptions to attract new foreign investment. The GoA also hopes to come to some resolution on the GoB's proposal to allow Paraguay and Uruguay more flexible rules of origin treatment and so make them more attractive destinations for FDI that targets the broader Mercosur market. While the GoA argues that any extension of privileges to Uruguay and Paraguay would weaken already fragile Mercosur investment

disciplines, ongoing high profile Argentine frictions with Uruguay over free transit of people and goods makes the GoA reluctant to be seen as blocking any accommodation that would directly benefit Uruguay. On regional infrastructure projects, Argentina hopes to gain some clarity on the proposed (and controversial) \$20 billion-plus Venezuela to Argentina gas pipeline project, Brazil/Argentina border bridge construction projects and management of the common Guarani aquifer. END SUMMARY

13. (U) Accompanying President Kirchner to the January 18-19 Mercosur Summit will be Foreign Minister Taiana, Economy Minister Miceli and Planning Minister De Vido. The Economy Ministry's Industry Secretary Peirano, Agriculture Secretary Campos and Trade Undersecretary Nazer will accompany, along with Deputy Foreign Minister Moritan, Foreign Ministry Trade Secretary Chiaradia and Foreign Ministry Mercosur Economic

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Integration Undersecretary Sigal.

14. (SBU) According to the Foreign Ministry, the substantive agenda for the January 18 Council of Ministers, to be attended by Mercosur Economy and Foreign Ministers, will include Venezuela's progressive incorporation into Mercosur disciplines, including into the common external tariff (CET); Bolivia's application to move from associate to full membership status; FOCEN, Mercosur's structural integration fund that seeks to address competitive asymmetries; and FTA negotiations between Mercosur and third parties, including the European Union, Israel and the Gulf Cooperation Council.

Venezuela's Shadow

15. (C) Venezuelan President Chavez's "socialism or death" inaugural comments and his decision to nationalize key industries (which negatively impacted equity markets throughout the hemisphere) will certainly cast a shadow on Rio Summit activities. The Kirchner administration, which delayed issuing a new bond following the GoV nationalization announcement, has been quick to differentiate and distance itself from Venezuela. While both Minister of Interior Anibal Fernandez and Foreign Ministry Trade Secretary Chiaradia insist that Venezuela's decision is an internal one and does not affect Mercosur, they have also asserted that "Venezuela is not the model" for Argentina or for Mercosur. (Argentina's largest daily "Clarín" drew a U.S. connection to the distancing as Fernandez's remarks came following a meeting with the Ambassador.) Chavez's decision may even have prompted President Kirchner to reconsider attending the regional Summit, as at least one local newspaper reported on January 12 that he would not participate in order to avoid meeting Chavez.

Argentina's Summit Trade Agenda

16. (SBU) Officials from the Foreign Ministry's Latin America Economic Integration Directorate agree that Mercosur - European Union FTA negotiations have been put on a back-burner pending more significant movement by the EU on agricultural access and quotas and linked Mercosur flexibility on access to EU services. While there had been earlier hope to announce a Mercosur - Israeli FTA, Ministry officials explained that an announcement will likely be pushed to the next (Paraguay-hosted) Summit due to ongoing tariff line negotiations. An announcement will likely be made upgrading an earlier May, 2005 Framework Agreement with the Gulf Cooperation Council via an Annex detailing a progressive liberalization program for goods trade.

17. (SBU) Despite speculation in the Brazilian press, the GoA does not plan to raise its recent WTO challenge to Brazilian anti-dumping tariffs on Argentine PET plastic resin exports. Foreign Ministry sources noted that media confusion had been

generated by a scheduled -- and since postponed -- GoA/GoB working level meeting to discuss the PET case on dates overlapping the Summit. Foreign Ministry Trade Secretary Chiaradia publicly announced that Argentina's decision to take the PET case to the WTO rather than to work through Mercosur dispute resolution channels was based on the WTO's more substantive body of anti-dumping case precedent and norms. He pointed out that the 2002 Mercosur Olivos Protocol on Dispute Settlement gives member states the option of choosing either forum to address individual cases. "This PET case will not be discussed in Rio," Chiaradia said. "Our relation with Brazil remains harmonious and these types of disagreements are normal."

GoA Priority: Mercosur Investment Disciplines

18. (SBU) An Argentine priority at the upcoming Summit will be to come to some resolution of the GoA's long-standing

complaint on Brazilian state-level tax incentives and exemptions to attract new large-scale foreign investment. The GoB, they said, had long used the argument that Brazil's federalist constitution tied their hands on this issue. The GoA will seek consensus on the formation of an EU-like body to vet such investment tax incentive issues.

19. (C) An additional Argentine priority on Mercosur investment disciplines is to come to some resolution on the GoB's proposal to allow Paraguay and Uruguay more flexible rules of origin treatment in order to make them more attractive destinations for FDI that targets the broader Mercosur market. While the GoB is extremely eager to see some resolution to this matter during the Rio Summit, Foreign Ministry officials said, the GoA is torn. Any extension of privileges to Uruguay and Paraguay would weaken already fragile Mercosur investment disciplines and "turn smaller Mercosur members into little more than hosts for maquilas" (low value added assembly factories). But, given ongoing high profile Argentine frictions with Uruguay over free transit of people and goods between the two nations (over the Botnia paper mill protest) Argentina is reluctant to be identified as blocking an accommodation that would directly benefit Uruguay.

Regional Infrastructure Projects

110. (SBU) Planning Minister De Vido, who also attended the last Argentina-hosted Mercosur Summit in Cordoba province, will join the Rio Summit to discuss regional infrastructure projects. According to Planning Ministry officials, these will include the controversial \$20 billion-plus Venezuela to Argentina gas pipeline project as well as bridge construction projects on the Brazil/Argentina border. Additionally De Vido will seek to move forward Mercosur discussions on the conservations and management of the Guaraní aquifer, one of the largest bodies of groundwater in the world that is shared between Argentina, Brazil, Uruguay and Paraguay. He will also propose -- or perhaps respond to Brazilian proposals -- to establish a Mercosur study group on bio-combustibles.

Comment

111. (C) Over the past 18 months, Argentina has reaped economic benefit from its relationship with Chavez, with Venezuela a reliable buyer of Argentine debt, the financial savior of a large Argentine dairy cooperative, and a ready customer for Argentine agro-industry and maritime products. The political and economic spill-over effects of Chavez's declared pursuit of socialism, however, may prompt the GoA to reevaluate its relationship with Caracas and seek to further distance itself from Chavez and his so-called "Bolivarian

revolution".
WAYNE